



STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

IN THE MATTER OF THE PETITION OF) TELECOMMUNICATIONS
PAETEC COMMUNICATIONS, INC. FOR)
APPROVAL TO INCUR DEBT OBLIGATIONS) ORDER GRANTING APPROVAL
) AS WITHIN TIME
)
) DOCKET NO. TF06050375

(SERVICE LIST ATTACHED)

BY THE BOARD:

PAETEC Communications, Inc. ("Petitioner"), a Delaware corporation and a public utility subject to the jurisdiction of the New Jersey Board of Public Utilities ("Board"), filed a petition with the Board on May 16, 2006, pursuant to N.J.S.A. 48:3-7 and N.J.S.A. 48:3-9, for approval to enter into a certain Loan and Security Agreement ("Agreement"), with a syndicate of financial institutions, in connection with a proposed recapitalization (the "Recapitalization") involving the buyout of certain minority shareholders (the "Minority Shareholders") of PAETEC Corp., Petitioner's parent company.

On July 27, 2006, Petitioner filed a letter with the Board to request that approval be granted by the Board "as within time"¹ because the Petitioner, without Board approval, closed on the transaction on June 12, 2006.

Petitioner is authorized to provide local exchange and interexchange services throughout New Jersey, pursuant to Board Order of Approval dated February 6, 2003, in Docket No. TE02060319. Petitioner is a wholly owned subsidiary of PAETEC Corp., a privately held Delaware corporation, whose principal business is telecommunications.

On April 27, 2006, in Docket No. TF06010065, the Board approved the terms of a certain Fourth Amended and Restated Loan and Security Agreement ("Fourth Amendment"). The Agreement enables Petitioner to retire all outstanding amounts owed under the Fourth Amendment, pay transaction costs of the new facility and buy out the Minority Shareholders. The financing under the Agreement consists of certain first-lien credit facilities, made up of (i) a \$240 million term loan and (ii) a \$25 million revolving credit facility, totaling \$265 million, and a second lien term loan facility in the amount of \$125 million, for a grand total of \$390 million.

Formally known as "nunc pro tunc." See State v. Molina, 2006 N.J. LEXIS 1073, *8, n. 1 (2006).

The annual interest rate on advances under the Agreement, at the option of the Petitioner, is equal to the London Interbank Offered Rate (LIBOR) plus an applicable margin, or an Alternate Base Rate plus an applicable margin. Petitioner's debt is to be secured by certain of its assets and stock and will be unconditionally guaranteed by its parent, PAETEC Corp.

Petitioner, in accordance with N.J.S.A. 14:1-12 et seq., filed a request for confidential treatment of the term sheets and supplemental information submitted to the Board in conjunction with its review of this matter.

Voting control of PAETEC Corp. has been held by Arunas A. Chesonis, the Chairman and Chief Executive Officer of PAETEC Corp. Prior to the Recapitalization, Mr. Chesonis held approximately 54% majority voting control of the company either through direct ownership or through proxies granted by other shareholders. The Minority Shareholders, while not holding actual voting control of PAETEC Corp., had certain veto rights over major corporate decisions, and the right to appoint two out of the nine members of the board of directors.

The Recapitalization involves a buy out of the interests of the Minority Shareholders, resulting in a minority transfer of control of the company because the Minority Shareholders lose their veto rights and the right to appoint two members of the board of directors. The stock held by Minority Shareholders will be exchanged for cash and stock in PAETEC Corp., which has the effect of eliminating the Minority Shareholders' veto and board appointment rights. Furthermore, as a result of the Recapitalization, voting power held by Mr. Chesonis would decrease from 54.2% to less than 50%. Mr. Chesonis will no longer have voting control of the company, and no individual investor, or group of investors, will have voting control of the Company.

The Division of the Ratepayer Advocate has reviewed this matter and, by letter dated July 10, 2006, recommended that the Board approve this petition.

The Staff's review indicates that the financing transaction is in accordance with law and that the use of the proceeds associated therewith is appropriate. While there is no guarantee in this regard, especially given the competitive environment in which Petitioner operates, the Board is satisfied that the transactions will not have an adverse impact on Petitioner's operations in New Jersey.

The Board would be remiss if it failed to note that Petitioners closed upon this transaction without Board approval. It would be well within the Board's authority to sanction the company or take other steps, including requiring that the Recapitalization be put back and the parties returned to their positions as if the action never occurred. Failure to secure Board approval was a risky proposition, and one the Board strongly recommends that neither this Petitioner nor other regulated entities engage in lightly. Nevertheless, because the transaction here appears to conform with the Board's requirements, and in light of the claim by the Petitioners that the speed was necessary to ensure the financial foundation for its proposed acquisition pending before the Board, the Board will consider the request for approval on its merits.

After review, the Board FINDS that the proposed transactions are consistent with the applicable law. The Board therefore approves the purposes thereof. The Board HEREBY AUTHORIZES Petitioner to participate in arrangements described herein, as if filed within time. The Board

further finds that Petitioner's request for confidential treatment shall be governed by the disclosure requirements set forth at N.J.A.C. 14:1-12.1 et seq.

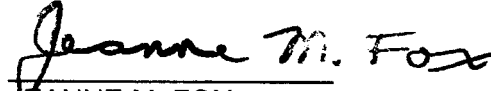
This Order is issued subject to the following provisions:

1. This Order shall not affect or in any way limit the exercise of the authority of the Board or the State of New Jersey in any future petition or in any proceeding regarding rates, costs of service, franchises, service, financing, accounting, capitalization, depreciation or any other matters affecting Petitioner.
2. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by Petitioner.
3. Petitioner shall semiannually file statements for the amounts, use of the amounts and use of the credit facilities pursuant to N.J.A.C. 14:1-5.9 (b).

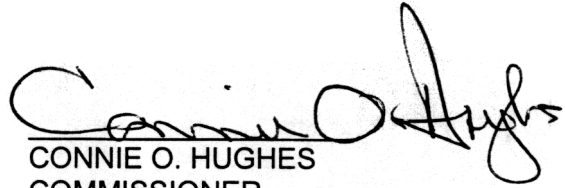
4. Notwithstanding anything to the contrary in the documents executed pursuant to the financing transactions or other supporting documents, a default or assignment under such agreement shall not constitute automatic transfer of Petitioner's assets. Board approval must be sought pursuant to N.J.S.A. 48:1-1 et seq. where applicable.

DATED: 9/14/06

BOARD OF PUBLIC UTILITIES
BY:


JEANNE M. FOX
PRESIDENT


FREDERICK F. BUTLER
COMMISSIONER


CONNIE O. HUGHES
COMMISSIONER

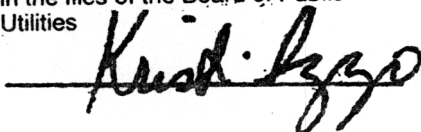

JOSEPH L. FIORDALISO
COMMISSIONER


CHRISTINE V. BATOR
COMMISSIONER

ATTEST:


KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within
document is a true copy of the original
in the files of the Board of Public
Utilities



SERVICE LIST

In the Matter of the Petition of PAETEC Communications, Inc. for Approval to Incur Debt Obligations

Docket No. TF06050375

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**BOARD OF PUBLIC UTILITIES
OFFICE OF THE ECONOMIST**

FINANCING FACT SHEET

DOCKET NO. TF06050375

PETITIONER: PAETEC Communications, Inc.

TYPE OF SECURITY: Loan and Security Agreement involving the buyout of certain minority shareholders of PAETEC Corp.

AMOUNT: \$240 million term loan
\$25 million revolving credit facility
\$125 million second-lien term loan facility
Total: \$390 million

MATURITY: The first-lien term loan will mature 6 years from the closing date.

The revolving credit facility will mature 5.5 years from the closing date.

The second-lien term loan will mature 7 years from the closing date.

INTEREST RATE: First-lien term loan and revolver: Either a base rate or LIBOR plus an applicable margin.

Second-lien term loan: Either a base rate or Eurodollar rate plus an applicable margin.

METHOD OF SALE: Negotiated

USE OF PROCEEDS: The proceeds will enable petitioner to retire all outstanding amounts owed under the Fourth Amendment, pay transaction costs of the new facility and buy out the Minority Shareholders.

NJ PRESENCE: Petitioner is authorized to provide local exchange and interexchange services throughout New Jersey, pursuant to Board Order of Approval dated February 6, 2003, in Docket No. TE02060319.

Annual NJ Revenue – \$53,527,031 (2005)
NJ Customers – 6,301

PETITIONER'S TEAM

COUNSEL: Dennis C. Linken

BPU STAFF

ECONOMIST OFFICE:	Michael Tavani Robert Wojciak
D A G:	Kenneth Sheehan
AGENDA DATE:	9/13/06
PREPARED BY:	Michael Tavani
REVIEWED BY:	Mark C. Beyer